

**A Study on factors influencing IPO decisions among Retail Individual Investors in
Visakhapatnam**

L.SRINIVAS¹,

Research Scholar,
Rayalaseema University,
Kurnool.

Dr. P. VENKATA RAO²,

Chairman, Training and Placement,
GVP COLLEGE,
Kommadi,
Visakhapatnam

Abstract:

Initial public offering plays a vital role in the expansion of any company. IPO facilitates the transfer of funds from surplus sector to deficit sector. In Indian capital markets, it is observed that many IPOs are oversubscribed in the recent past. Though investment in IPOs is a risky activity, a rush has been identified during the issues in recent times. The retail investors frequently study their needs, goals, objectives and restrictions before taking decision about their investment. But it is not being possible for them to arrive upon an effective decision on investments. In this paper, an attempt has been made to know the factors influencing the investment decisions of the retail individual investors in IPO. Results of the study revealed that capital appreciation and safety play major influencing factors in the decisions of retail investors. Another interesting finding is that that most of the Retail Individual investors invest in stocks for short periods of time and they exit from the market when they get their targeted returns.

Key words: Retail Individual Investors, capital appreciation, safety, oversubscription, investment.

Introduction:

Financial equity markets play an important role in the economic development of a country. This market enables the deficit sector to mobilise funds from surplus sector. When a new company is floated, its shares are issued to the public in the primary market as an Initial Public Offer. IPOs are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. When a company offers stocks to the public, then each stock represents a piece of ownership. And each investor who holds stocks of the company will be considered as a part of the owners of the company. When a company does perform well, its investors get rewarded in the form of increased value of their stock. The risk comes when a company is not doing well, and its stock value is on the fall. Investment decision in

any avenue is an outcome of some analyses. It may be both fundamental analysis and technical analysis. IPO issues provide an opportunity to maximise returns as they penetrate into equity investments. In reality however, the equity market is characterised by uncertainty and unpredictability. For individual investors it is tough to predict what the stock or value of the shares will do on its initial days of trading and near future due to non availability of historical data to evaluate performance of the organisation. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value.

During an Initial Public Offer (IPO) the shares are given to the public at a discount on the intrinsic value of the shares and this is the reason that the investors buy shares during the IPO in order to make profits for themselves. IPO in India is done through various pricing methods like book building method, fixed price method, or a mixture of both. Globally, the IPO activity, so far this year, recorded 772 IPOs raising USD 83.4 billion. The top three sectors, in terms of highest number of IPOs during April-June 2017, were Technology (13 IPOs raising USD 1.5 billion), Industrial (12 IPOs for USD 3.2 Billion) and health care (11 IPOs for USD 2.3 billion). According to the report of Economic times on July 5, 2017 Indian market, exchanges saw 57 IPOs raising USD 2.3 billion in the first half of 2017. The year 2017, started with two landmarks IPOs-BSE became the first ever Indian exchange to be listed, while Housing and Urban Development Corporation was hugely oversubscribed, making it one of the most popular IPOs in more than a decade. Increased activity for IPOs shows better market sentiments. Investor's decision to invest in IPOs depends on several factors. There will be a combined effect of Demographic, psychological & economic factors on the investment decision in IPO.

Objectives and Scope of the study:

The major objective of this study is to identify the factors that affect investment decisions in IPO among retail individual investors in Visakhapatnam city. An attempt has been made to study the demographic profile of retail Individual investors in Visakhapatnam. Another objective is to know the span of investment and reasons for selling securities.

Research Methodology:

Researcher used both primary data and secondary data. To achieve the objectives of the study well structured questionnaire has been designed. With the help of this questionnaire primary data has been collected. Sample size is 50. Simple random sampling technique has been used to select the respondents. Using internet and EBESCO various articles relating to this study have been collected to review the available literature.

Review of Literature:

Initial Public Offering (IPO) has been attracting the focus of all investors throughout the world in

the recent past. Many studies have been conducted to know the factors influencing IPO decisions from investors and organisations point of view. The particular way of looking at individual investors has been subject to a greater paradigmatic shift with the inclusion of psychology into financial studies. Demographic patterns of the retail individual investors are the important factors that influence investment decision. DeBondt, et al. (2000) enumerated generic factors which influence investor behaviour in any stock exchange. Number of demographic patterns were identified. In his survey he identified few interesting things. Ownership tends to be higher among men than women and tends to increase with age, income and educational attainment. These demographic differences have slightly appeared among investors of developed countries. Capital appreciation was also another factor influencing the behaviour of investors where short term and long term growth indicators are involved.

Malkiel (2003), observed that investors preferred current income stocks that pay a consistent and high dividend. Retired people used this strategy for their living expenses. Others are interested to get lump sum of capital to create an income stream that never touches the principal besides providing cash for certain current needs. According to Bhagat and Rangan (2004), women are more risk averse than men, the young are more risk seeking than old. High income people are willing to invest in equities and poor are risk averse. Change in attitude to take risk over time has been identified due to altered needs and people's capacity to afford. Finally they observed a decreased willingness among people who are retired or nearing retirement.

A recent development in the application of internet which gives better and freer exchange of information from international sources is another reason for recent development in IPO Daily, (2005). The relationship between financial literacy and stock exchange investments at the individual investor level is more significant. Derrin, (2005) made an attempt to investigate this relationship. He examined how financial literacy affects the tendency to rely on actively managed stocks rather than passively managed companies in an event of an IPO issue of such a company. Gillan, et al. (2007) identified that expenses are a major determinant of share prices performance. He also observed that financial literacy has influence on the accuracy of the participants return and risk estimates for their risk.

Antony Wahome Ndirangu, et al. (2015) made an attempt to know the factors influencing individual investor behaviour during IPO among investors trading at Nairobi Securities Exchange (NSE), Kenya. Results of the study showed that adoption of internet, mobile marketing and awareness programmes will enhance the public knowledge on IPO and investment at the stock exchange. They identified the influence of demographic factor on investment decisions in IPO.

Ambrose Jagongo and Vincent S.Mutswenjee, (2014) tried to establish the factors influencing investment decision at the Nairobi Stock Exchange. Results of the study revealed that reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the economy and expected dividend by investors are the major factors influencing investor decision to invest in IPO.

Few reviews are available to study the factors influencing the IPO from organisational point of view. Adam Szyszka, (2014) tried to find out motives for Initial Public Offering (IPOs); that is, whether market mispricing or the behavioural inclinations of investor impacting IPO decision. Totally 166 managers in Poland Leila have been surveyed. His results showed that over one-fifth of the managers surveyed identified financing needs as the least important factor when deciding to go public, while one quarter opined that desire to capitalise firms good historical results are reasons. Corporate times are closely followed by market timings as an IPO motivator.

Leila Beateni and Farshid Asghari, (2014) in their article made an attempt to know factors affecting pricing of Initial Public Offering. To know this, nearly 115 stock exchange companies on Tehran stock exchange have been studied. Results indicated that only P/E variable has a significant relation with price changes on initial public offerings and had highest impact on price of initial offering.

Analysis and Discussion:

Table 1: Demographic profile of Respondents

S.No.	Variable	Options	Frequency	Percentage
1	Gender	Male	38	76
		Female	12	24
2	Age	Below 25	8	16
		25-35	34	68
		35-45	6	12
		Above 45	2	4
3	Education	Uneducated	1	2
		Graduate	22	44
		Post Graduate	27	54
4	Employee	Government Employees	1	2
		Private Employees	49	98
5	Income	Up to 10000	3	6
		10001-15000	5	10
		15001-20000	13	26
		20001-25000	7	14
		above 25000	22	44
6	Marital Status	Married	31	62
		Unmarried	19	38

Table 1 shows demographic profile of respondents in Visakhapatnam. From the above table it is observed that out of 50 respondents 76% are male and 24% are female. Maximum number of respondents belongs to 25-35 years. Only 4% of the respondents have more than 45 years age. It also observed that almost all respondents are educated except one. Out of 50 respondents, 44% are graduates and 54% are post graduates. All respondents are private employees except one. We can see from the above table that 44% of respondents fall under the category of above Rs. 25,000 income per month, 26% of respondents fall under Rs. 15001-20000 per month, 14% of the people fall under Rs. 20001-25000 per month category. Income of 16% of the people is less than 15000. At the same time it is also observed that 62% of the respondents are married and only 38% are unmarried.

Table 2: Factors influencing IPO decision

Factors	Very Important	Important	Slightly Important	Not much Important	Not at all Important
Capital Appreciation	26(52%)	23(46%)	1(2%)		
Regular Annual Income	14(28%)	27(54%)	4(8%)	4(8%)	1(2%)
Tax Benefit	15(30%)	22(44%)	5(10%)	6(12%)	2(4%)
Higher Return	17(34%)	27(54%)	5(10%)		1(2%)
Safety	22(44%)	25(50%)	1(2%)	1(2%)	1(2%)
Liquidity	18(36%)	28(56%)	3(6%)		1(2%)

Table 2 indicates the factors influencing IPO decision. Major factors considered are capital appreciation, regular annual income, tax benefit, higher return, safety and liquidity. Responses have been invited from 50 respondents. More than one response has been given by the respondent. Any investor parks his/her surplus for capital appreciation to beat inflation and improve his/her purchasing power. In any country, there are few investors who depend only on stock market for their income. Generally they invest in securities which declare stable dividend. Investors require return with low or no tax. Capital market provides this opportunity to the investors. Many studies revealed that return from investment in shares is more than return from banks and other alternatives. An investor can get more than 12% of return from stock market. Some recent IPO had given more than 50% of return in India. Safety is always an important criterion in any investment. There is a misconception about investment in stock market. People believe that it is not a safe investment alternative. But many regulations are imposed by SEBI to protect the investors in stock market. Finally liquidity i.e. being able to convert the stocks into cash as and when they require also plays an important role in decision making.

From the above table it is observed that capital appreciation is the most influencing factor of investment decision. Almost all respondents accepted it as a motivating factor of investment in IPO. Next important factor of investment is safety. Nearly 94% of respondents opined that it is a guiding factor of their investment. High return and regular annual income

occupied third and fourth places. Only one third of the respondents opined that tax benefit is a motive of investment in IPO.

Table 3: investment time frame in equity

Variable	Respondents	Percentage
Less than 3 months	21	42
3 to 6 Months	15	30
7 to 12 months	9	18
More than 12 months	1	2
Not fixed	4	8
Total	50	100

Investment Time frame is a most important variable that determines the return and risk. Investment with long horizon reduces risk and increase return. Short term investment though gives return, is more risky. In short run when investors get their target return they exit from the market. From the above table 3 it is observed that almost all respondents are investing for not more than 12 months. It means that they are involved in short term investment only. Out of which 42% of the respondents are investing for less than 3 months. Meaning they purchase the securities through IPO and sell them in the stock market when trading starts. They are known as stocks. 30% of the respondents invest for 3 to 6 months. Only 8% of respondents are there without any time frame.

Table 4: Reasons for Purchasing shares:

	Frequency	Percentage
Recommendations of the Market Experts	12	19
To average the purchase price of stock	7	11
Expecting raise in stock market	13	21
When you feel the scrip is worthy	30	49
Total	62	100

(Note: respondents given more than 1 response)

Shares will be purchased under different circumstances. In countries like India, investors purchase shares with the recommendations of the market experts. Market experts convey their recommendations through news papers and news channels. Investors generally enter into the stock market when it is in bull trend. Investors with financial and company knowledge will consider fundamentals of the organisation. From the above table 4 it is observed that 49% of respondents purchase shares if they feel the scrip is worthy. 21% of respondents purchase when they expect rise in stock market. 19% of respondents are purchasing stocks with the recommendations of market experts. Very few respondents are purchasing stocks with an intention to average the purchasing price of stock.

Table 5: Reasons for selling shares

	Frequency	Percentage
Need of Money	12	24
After getting desired Rate of return	30	60
When market touches new high	13	26
When you feel the market will fall	11	22
Total	50	100

Sale of stock depends on many factors like need of money, reaching target return, market at new high and market on fall. In this analysis it already observed that investors invest for short period only. So generally when they earn the desired rate of return, investors sell their shares. From the above table 5 it is observed that 60% of respondents sell shares after getting desired rate of return. 26% of investors sell when market touches new high. 24% of the respondents sell when they need money. Finally 22% of respondents sell when market falls.

Conclusion:

Present study made an attempt to find out the factors influencing investment decision in IPO among retail individual investors. It clearly shows that capital appreciation and safety in investment are the driving forces of the investment. Higher annual returns are also motivating investors towards investment in IPO. Most of the respondents are investing their funds for very short period of time i.e. less than 3 months. They are subscribing shares in primary market through IPO and are selling in secondary market for higher return. Long term investment reduces risk and increase return so investors should invest for long time.

Fundamentals of the organisation is another important factor considering while investment in IPO. More than half of the respondents are looking at fundamentals of the organisation. Investment in companies those are fundamentally strong gives more and assured return. Investors are selling their shares when market reaches new high. Investors prefer to purchase stock when there are expectations of rise in market. As mentioned earlier investors are staying invested for short period of time and are selling shares when they get desired rate of return.

References:

1. DeBondt, et al. (2000), Further evidence on the investor overreaction and stock market seasonality, *Journal of Finance*, Vol 42.
2. Malkiel (2003), the efficient market hypothesis and its critics, the journal of economic perspectives, Vol 17.
3. Bhagat and Rangan (2004), Determients of IPO valuation, working paper, Leads school of business, Colorado; University of Colorado press.
4. Daily (2005), Investment bankers and IPO pricing: Matter?, *Journal of business venturing*, Vol 20, pp 93-111.

5. Derrin F (2005), IPO Pricing in hot market conditions: who leaves the money on the table?, *Journal of Finance*, Vol 60(1), pp487-521
6. Gillan, et al. (2007), Corporate Governance Post-Enron: Effective Reforms or Closing the Stable Door?. *Journal of Corporate Finance*, Vol.13 pp 929- 958
7. Antony Wahome Ndirangu, et al. (2015), Factors influencing individual investor behaviour during Initial Public Offers in Kenya, *Research Journal of Finance and Accounting*, Vol 6 (20), pp 22-30, [ISSN: 2222-1697]
8. Adam Szyszka, (2014), Factors influencing IPO decision. Do corporate managers use market and corporate timing? A survey, "international journal of Management and Economics, No 42, pp 30-39.
9. Leila Beateni and Farshid Asghari, (2014), Study of Factors Affecting the Initial Public Offering (IPO) Price of the Shares on the Tehran Stock Exchange, *Research in world economy*, Vol 5 (2) pp 68-73 [ISSN: 1923-3981]
10. Ambrose Jagongo and Vincent S.Mutswenjee, (2014), A Survey of the Factors Influencing Investment Decisions: The Case of Individual Investors at the NSE, *International Journal of Humanities and social Science*, Vol 4 (4), pp 92-102.